JERSEY FINANCIAL SERVICES COMMISSION

Business Plan 2007

Contents

Section One: Introduction

The 2007 Business Plan sets out the Commission's objectives together with an explanation of how these will be met. The Plan has been formulated taking into account the Commission's Key Purpose, Aims and Values. These are set out below.

Key Purpose

The Commission's key purpose is to maintain the Island's position as an international finance centre with high regulatory standards by:

- reducing risk to the public of financial loss due to dishonesty, incompetence, malpractice or the financial unsoundness of financial service providers;
- protecting and enhancing the Island's reputation and integrity in commercial and financial matters;
- safeguarding the Island's best economic interests;

  and, in pursuit of the above,

- contributing to the fight against financial crime.

Aims

In support of our key purpose, the Commission aims to:

- ensure that all entities we authorise meet fit and proper criteria;
- ensure that all entities we regulate are operating within accepted standards of good regulatory practice;

- match international standards in respect of banking, securities, trust company business, insurance regulation, and anti-money laundering and terrorist financing defences;

- identify and deter abuses and breaches of regulatory standards; and

- ensure the Commission operates effectively and efficiently and is properly accountable to the Minister for Economic Development.

Values

In support of our key purpose and aims we expect all our employees to act in a manner consistent with the following values:

Excellence:	We are committed to achieving quality in the exercise of our allocated tasks and assigned responsibilities and undertake to strive for continuous improvement by identifying ways to increase efficiency and effectiveness within ourselves and the Commission.
Professionalism:	We will conduct ourselves in accordance with the principles of professionalism by demonstrating a clear sense of commitment, objectivity and consistency.
Integrity:	We will be honest, fair and open in our dealings with one another and with the industry we regulate.
Teamwork:	We welcome the opportunity to work with one another and to share ideas, information and decisions by offering our support and assistance, and to solve problems in partnership with our colleagues, the industry we regulate and the international community.

Our employees:	We recognise that our people are our future and will encourage everyone to acquire professional skills, knowledge and experience to contribute effectively to the work of the Commission.
Respect for each other:	We recognise the equal worth of each individual and will support one another's need to balance their personal lives with their professional lives.
Respect for others:	We will aspire to meet the needs of all those we deal with by listening, understanding and responding promptly to their requests, and we will treat all those whom we regulate with courtesy and respect.

Section Two : Achievements in 2006

Overview

In 2006, the Commission continued to focus its efforts on the closer supervision of the Industry, with further on-site examinations and, as part of the process, the reporting back of trends, in order to assist Industry to achieve greater levels of compliance. The total number of on-site examinations was nevertheless slightly lower than the number carried out in 2005. This reflected the need to resolve the remaining issues identified during the 2005 examination programme and to deal with key legislative priorities.

With respect to policy priorities, revisions to the Trust Company Business ("**TCB**") Codes of Practice were put out for consultation, and Banking Codes of Practice were issued for the first time. Substantial further progress was made with regard to the Handbook for the Prevention and Detection of Money Laundering and the Financing of Terrorism ("**AML/CFT Handbook**"), which was issued for consultation in May. There was also a continuing emphasis on the various initiatives on funds and in the corporate sector, while it was also necessary to ensure that the remaining elements of the International Monetary Fund ("**IMF**") Action Plan, arising out of the 2003 IMF assessment, were progressed.

As well as projects and policy development, the Commission continued to put effort into the substantial "business as usual" tasks that it faces, with the ongoing aim of providing a high level of efficiency, flexibility and responsiveness to the Industry. (Analysis from the time recording system used by the Commission establishes that 90% of the Commission's available time and resource is spent on business as usual). Contingency was built into the Commission's resource planning to allow for the ability to react quickly to new developments, and the Commission further tried to alleviate pressure on resources through the continued application of its risk-based approach to supervision.

In the area of enforcement, the Commission took an action during the year against Alternate Insurance Services Limited to recover monies that had been lost due to misleading investment advice having been given. A judgment is expected on this litigation in early 2007. The litigation concerning A.P. Black (Jersey) Limited and others continued during 2006 but was discontinued with a final judgement in December as it became clear that it was unlikely that any significant monies would be recovered from the remaining respondents. In giving his judgment in this case Commissioner Southwell indicated that the Commission had behaved very reasonably in conducting the investigation and recovery action against these remaining respondents.

Finally, key Board and senior positions were filled, as John Boothman was appointed as an additional Commissioner on 30 June and the new Director General, John Harris, was appointed on 6 November to succeed David Carse.

Governance

The Commission continued to monitor its own standards of corporate governance to ensure that it meets, so far as is applicable, the standards that are applied to commercial organisations.

During 2006, the Commission completed work on reviewing the model it uses for monitoring and mitigating the risks it faces. In doing so, the Commission had regard to the updated "Turnbull Guidance on Internal Control" issued by the UK Financial Reporting Council in October 2005.

As a result of the experience gained in a number of licensing and enforcement cases, a review was undertaken of the Commission's decision-making process in these areas. This review was finalised and the resulting policy document was published during the final quarter of the year.

Communication

During 2005 the Commission started a planned programme for contact with overseas regulatory authorities. This included visits to supervisory authorities in the United States and Germany, and the signing of a number of agreements in relation to regulatory cooperation. In 2006, this contact programme was further developed, and six new Memoranda of Understanding ("**MoU**") were signed with the Cayman Islands Monetary Authority, the China Banking Regulatory Commission, De Nederlandsche Bank NV, the Qatar Central Bank, the Qatar Financial Centre and Regulatory Authority, and the Dubai Financial Services Authority.

The Commission also extended the process of communicating its strategic aims and objectives to Industry and providing feedback on best Industry practice and the results of its examination programme. In March 2006, a series of workshop events was held, followed in July by a major strategic seminar focusing on international issues. In September 2006, communication and strategy were combined to coincide with the start of the Commission's business planning cycle, with input from Industry on its own priorities for 2007 through a new Chief Executive Officer ("**CEO**") Forum. The Commission also began publishing a quarterly newsletter during the year.

Summary Progress against key priorities set out in the published 2006 Business Plan and 2005 Annual Report

The Commission continued to focus on closer supervision through on-site examinations, and the ongoing progression of the Automated Risk Management and Integrated Information Exchange ("**ARMIIE**") project to facilitate such examinations. Once implemented in 2007, the ARMIIE project should improve the efficiency and effectiveness of the Commission's examination programme. The Commission also continued to report back the results of examinations to Industry. Results have been fed back to industry in various ways – through seminars, presentations, dialogue with Industry associations, letters to CEOs on areas of concern, the new Quarterly Newsletter and the website. The Commission completed some 113 examinations in 2006 against a target of 110 (including some examinations that were outsourced).

The AML/CFT Handbook and the revised Money Laundering Order are not yet complete as originally planned, but consultation continues, and a summary of responses was provided in November for further consideration by the Steering Committee. It is now hoped to publish the Handbook in February 2007. In addition, extensive work has been undertaken on the implementation of Financial Action Task Force ("**FATF**") Special Recommendations VI and VII ("**SRVI & SRVII**") on remittance systems and wire transfers respectively.

In the 2006 Business Plan, the Commission planned further progress on the IMF action plan and to begin preparation for the 2008 evaluation. Many of the activities during 2006 related to this in one way or another, for instance:

- ♣ the examination effort mentioned above;
- ♣ the consultation on revised Codes of Practice for TCBs and new Codes of Practice for Fund Service Business;
- ♣ the issuance of guidance on the Commission's use of enforcement powers; and
- ♣ the development of contingency plans for the failure of a regulated entity.

In 2006, the Commission has made good progress on a number of important policy issues. In the Funds area, the Expert Fund Guide has been reviewed, suggested changes put out for consultation, and then implemented before the end of the year. A new expert fund style guide for listed, closed-ended funds was put out for consultation. Discussion has also taken place on the proposed transfer of the regulation of fund functionaries to the Financial Services (Jersey) Law 1998 ("**FSJL**"). The development of new Codes of Practice on General Insurance Mediation Business ("**GIMB**") and Deposit-taking was progressed. The provision of guidance on approaches to Basel II was achieved, including guidance with relation to the treatment of market risk. Finally, Codes of Practice for Funds were put out for consultation and responses were reviewed during the final quarter. Work in the Funds area was assisted by an improvement in staffing levels and the appointment of a new Director of Securities.

In the area of the Companies Registry, the Commission successfully introduced reserved companies, and assisted the Economic Development Department (“**EDD**”) with the introduction of protected cell and incorporated cell companies. It also progressed with EDD the future legal provision for corporate directors. On-line filing of annual returns was introduced, and the introduction of on-line searches and incorporations was progressed. The Commission also entered into an Information Sharing Agreement with the European Business Register (“**EBR**”). The EBR is made up of most of the official company registers (or equivalent) in Europe. The EBR provides one single entrance to information on more than 18 million companies in more than 18 European countries. Jersey, as a participant, will eventually be able to make this company information available to its registry users.

During the year, the Commission planned to implement necessary changes to regulatory laws and procedures to ensure human rights compliance. In this respect it issued law drafting instructions for all areas identified as high priority. The Commission has thoroughly reviewed its decision-making process in the light of recent licensing and enforcement cases, and guidance to industry was published in November.

With respect to more internal and operational issues, the design and oversight of implementation of the Commission’s premises requirements and the overall preparation for the move to new premises in May 2007 has progressed well. The project is on schedule. The Commission has been the subject of a detailed value for money ("**VFM**") audit by the Jersey Comptroller and Auditor General; a draft report was received and responded to in October and a presentation of the findings was made by the Comptroller and Auditor General to the Board of Commissioners in December. A final report will be issued in early 2007. In November, the Commission was successfully assessed in respect of its Investor in

People ("**IiP**") status and also won recognition in the new IiP assessment categories of recruitment and selection.

There are some strategic Business Plan items that the Commission has not progressed. These include the development of legislation to introduce fining powers, on the basis that, following review, it was felt that increased supervision, prevention of non-compliance and cost-recovery were more immediate priorities. Consultation on changes to legislation to allow cost recovery of investigation costs related to regulated entities will be carried forward into 2007. The introduction of a depositor protection scheme was not progressed, but a revised approach, through which law drafting instructions for various schemes will be built into the Commission's contingency plan for dealing with the failure of a registered person, will be pursued instead. Further progress in respect of the introduction of an advertising order under the FSJL was extended until 2007 due to other higher priorities.

Key Statistics for 2006

Total Examinations 2006

Division	Themed	Focused	Discovery	Total
TCB	14	9	9	32
Funds	10 (outsourced)	3	9	22
IB	1	4	15	20
Banking	11	3	11	25
Insurance	14 (outsourced)	0	0	14
Total	50	19	44	113

Funds Statistics:

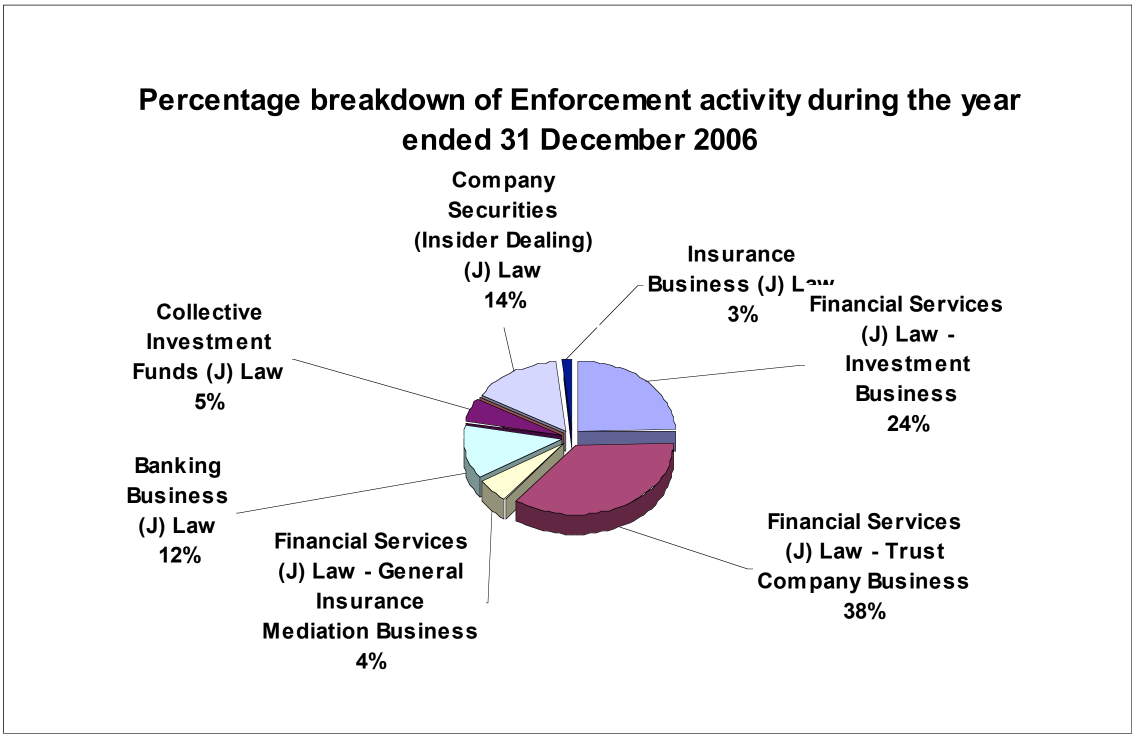
Category	2004	2005	2006

Jersey Funds			
- Jersey CIFs	85	60	21
- Expert Funds	45	105	149
- Total CIF	*130*	*165*	*170*
- VPUTs	68	393	311
- Other COBO only	21	14	20
- Total COBO	*89*	*407*	*331*
Total Jersey Funds	*219*	*572*	*501*
Non Jersey Funds			
- CIFs	55	20	37
- Expert Fund equivalent	7	21	28
- Total Non Jersey CIFs	*62*	*41*	*65*
- COBO	9	8	170
Total Non-Jersey Funds	*71*	*49*	*235*
Total New Funds Authorised	**290**	**621**	**736**

Enforcement Case Statistics

Total Enforcement Cases during the year ended 31 December 2006

	Financial Service (J) Law Investmen Busines	Financial Service (J) Law Trust Compan Busines	Financial Service (J) Law General Insuranc Mediatio Busines	Bankin Busines (J)	Collectiv Investme Funds Law	Compan Securitie (Insider Dealing (J)	Insuranc Business Law	**Total**
Active 1 January	5	15	0	2	3	4	0	29
New cases in year (to	13	13	3	7	1	6	2	45
Total during year (to	18	28	3	9	4	10	2	74
Still Active 31 December	3	11	1	2	2	1	1	21



Registry Statistics

Company Incorporation and Limited Partnerships set-ups (comparative figures relate to identical period in previous year):

Period / **Activity**	**Year ended 31 December 2004**		**Year ended 31 December 2005**		**Year ended 31 December 2006**	
Incorporations	2,439	13.1%#	2,861	17.3%	3,479	21.6%
Dissolutions	3,403	5.7%#	2,568	-24.5%	2557*	-0.4%
Limited Partnerships	141	39.6%#	113	-19.9%	160	41.6%

Compared to previous year
* 646 (970 for 2005) were struck off under Art 205

Self imposed Registry targets and achievements:
For the year ended 31 December 2006

	All Companies %	**Partnerships %**	**Searches %**	**Certification %**	**Business Names %**
Target	95 achieved within 2 days	95 achieved within 2 days	95 achieved within 2 days	95 achieved within 2 days	90 achieved within 2 days
Achieved	97.4	95.6	99.5	100.0	96.8

Section 3 : Priorities for 2007

Overview

In deciding on the Commission's main priorities for 2007, the Commission has taken into account the outcomes of three strategic Away Days held in August and September 2006. The first of these involved the Commission's Executive and Senior Management and focused on identifying those essential projects which would need to continue from 2006 into 2007 and beyond, and any new essential projects. The second Away Day held by the Board of Commissioners and the Executive agreed the context and parameters for the Commission's strategy going forward. The third strategic Away Day held with a selection of CEOs and Industry representatives reviewed the Commission's progress against its Business Plan and gained an Industry perspective as to what should be the main priorities for the Commission.

In the Away Day held for Commissioners and Directors, it was agreed that a key priority for the Commission is to continue and enhance compliance with international standards. The importance of this priority is given added weight by the fact that it is considered essential that the Commission and the Island as a whole obtain a rating by the IMF in 2008 that compares favourably with the rating of FATF Member States and other jurisdictions with whom Jersey would wish to be compared. It will therefore be necessary to focus the Commission's priorities on those initiatives that will ensure compliance with the standards. Furthermore, if a project which is not relevant to this is underway and is well advanced then it should be progressed, but it will not be progressed if it requires a significant commitment of further resource.
Analysis presented at that Away Day made it clear that business as usual takes up the most resources. There is clearly, therefore, little spare capacity for substantial new projects. Given the importance of the forthcoming IMF assessment, the Commission has decided that it should increase its manpower in 2007 in order to achieve its priorities but at the same time be prepared to take advantage of any opportunities to outsource to outside firms, particularly in respect of

some on-site examinations. This would be paid for by the Commission drawing on some of its accumulated reserves.

Summary of Key Priorities for 2007

As already noted, continued and enhanced compliance with international standards will be the critical priority for 2007. The Action Plan from the last IMF assessment will be completed and a review undertaken, both in preparation for the IMF assessment and as a matter of good practice, using current assessment methodologies published by the Basel Committee, the International Association of Insurance Supervisors ("**IAIS**"), the International Organisation of Securities Commissions ("**IOSCO**") and the FATF. To assist in this process, there should be a credible on-site examination programme in place across all the Supervision Divisions, as the international community and the IMF increasingly seeks to focus on the effectiveness of the implementation of the legal framework. In addition, communication with Government should be stepped up. The States have ownership of a number of anti-money laundering issues, and it will be important to demonstrate that the Island as a whole complies well with the international standards that will be evaluated by the IMF.

Funds initiatives such as the introduction of the Listed Fund Guide and the revision of the Non-domiciled Fund Guide should proceed.

A necessary critical project in 2007 for the Commission is the completion of the design of and move to new premises, with associated ICT projects. This is planned to take place at the beginning of May 2007 with completion of dilapidation work on the current premises prior to the end of the lease at the end of June.

Completion of the current phase of the ARMIIE project in 2007 will be important in improving the efficiency and effectiveness of the ongoing on-site examination programme.

Codes of Practice for Funds Service Businesses will be introduced in 2007, and the Codes of Practice for Investment Business will be revised.

In 2007, the Commission will also need to consider and commence the implementation of the recommendations arising from the 2006 VFM Audit.

Other projects that are not aligned with the Commission's key priority to address the IMF criteria will be postponed and undertaken during 2008/9. However, it should be possible to complete several ongoing non IMF-critical projects that are already far advanced in 2007.

Divisional Priorities for 2007

Directorate

As well as overseeing the key priority of assuring compliance with international standards and preparing for the 2008 IMF assessment, the new Director General will enhance the focus on strategy and international relations. Relations will be developed further with jurisdictions that might hold an adverse view of the Island, as well as being maintained and developed with regulatory authorities with which the Commission has signed MoUs.

The Directorate will also continue to develop and enhance relations with the Minister for Economic Development and other related States Ministers and Departments, as well as with the various Industry representative bodies domestically. The aim will be to continue the momentum gained in recent years in enhancing the relationship between the Commission, Industry and Government.

International & Policy

The key priority for the International & Policy Division will be to coordinate the preparation for the IMF visit that will take place in the first quarter of 2008. This will involve coordinating the completion of the Action Plan from the previous IMF visit, coordinating the Commission's self-assessment against the current international standards using published assessment methodologies and coordinating the preparation of all necessary documentation in advance of the assessment.

As part of the IMF preparation, the International & Policy Division will complete the implementation of the AML/CFT Handbook, and assist the Supervision Divisions with the development and implementation of a supervisory approach with regard to assessment of compliance with anti-money laundering and combatting terrorist financing legislation within a risk based environment. This will seek to achieve the implementation of FATF recommendations on anti-money laundering and terrorist financing.

The Division will also prepare law drafting instructions that will enable appropriate compensation schemes to be put in place at short notice should the need arise.

The International & Policy Division will continue to assess the impact of European Union ("**EU**") legislation, initiatives and standards on the Jersey finance Industry and the Island's regulatory regime and will, in particular, follow developments in the implementation of the Markets in Financial Instruments Directive ("**MiFID**"), the Statutory Audit Directive, the Third Money Laundering Directive and the Transparency Directive.

Enforcement

The Enforcement Division will continue to manage investigations relating to local issues and possible overseas financial services crimes. It will also continue to "police the perimeter" by seeking to identify and investigate businesses conducting financial services businesses without requisite licensing. Whilst performing these tasks the Division will maintain close liaison with overseas regulators and domestic criminal authorities.

During 2007, the recovery action launched against Alternate Insurance Services should be concluded. This may well include a second action taken before the UK High Court to enforce rights under Alternate's professional indemnity insurance policy.

Following discussion concerning possible fining powers during 2006, it is intended that consultation with the Industry take place concerning the addition of an enabling power for fining in primary regulatory legislation.

It is also planned to issue consultation on the recovery of investigation costs through statutory provision and the introduction of a general banning power for principal persons to complement the Commission's existing powers to object to principal persons in relation to existing licences.

It is intended to present Amendment 3 of the FSJL concerning market abuse to the States for approval in early 2007.

Supervision Divisions

The on-site examination programme conducted by Commission staff and outsourced to third parties will continue with greater frequency than that achieved in 2006. Completion of the current phase of the ARMIIE project will assist the examination programme. On-site examinations for 2007 are planned as follows:

Division	Themed	Focused	Discovery	Total
TCB	24	6	20	50

Funds	4	4	10	18
IB	10	4	4	18
Banking	20	5	0	25
Insurance	0	0	20	20
Total	58	19	54	131

A key feature of on-site examinations for the Banking Division will be to follow up Industry self assessment against the recently introduced Codes of Practice. The Insurance Division will continue to carry out its on-site examinations for GIMBs now that these have been brought into the scope of regulation. The Funds and Investment Business teams will carry out themed examinations in the areas of communications with investors and advertising. The TCB Division will be running two separate examination themes in 2007, one focusing on compliance with the AML regime and one looking at compliance with the financial resource requirements set out in the TCB Codes of Practice.

In terms of essential projects, the Supervision divisions will all have a role to play in preparing for the IMF evaluation in the first quarter of 2008. To assist in this process, four contract staff at Manager level will be employed to work in the Divisions to release more experienced staff who will focus on assessment against international standards and preparation for the 2008 IMF assessment.

The Banking Division will continue the implementation of Basel II, focusing on delivering required systems enhancements and internal and external liaison. The ongoing work on the Advertising Order will be led by the Banking Division in liaison with the other Supervision Divisions with a view to re-drafting the Order and putting it out for consultation during 2007. The Division will progress work begun in 2006, such as amendments to the Banking Business (Jersey) Law 1991 ("**BBL**"), and the revision of liquidity management requirements for banks. Authorisation and supervision procedures will also need to be introduced in respect of Money Services Businesses. Revised Core Principles for Effective Banking Supervision were issued by the Basel Committee on Banking

Supervision in October 2006 and will be fully reviewed, as will the accompanying revision of the Core Principles Methodology in light of the expected IMF assessment in 2008.

The Securities Division will finalise consultation on the Codes of Practice for Funds and publish these during 2007. The Division will also review the Control of Borrowing (Jersey) Order 1958 Law ("**COBO**") and introduce the Listed Fund Guide and revise the Non-Domiciled Fund Guide. The Investment Business team will also consider closely any implications that affect investment businesses arising out of the consultation process for Trust Company Business Codes of Practice (see below). Finally the Division will also review the level of compliance against IOSCO's Core Principles.

The TCB Division will review responses to the revised Codes of Practice consultation process, and look to publish the revised Codes during 2007. The TCB Division will also be reviewing the various Director Exemption Orders.

The Insurance Division will complete and issue the Codes of Practice for GIMBs. In addition, a multi-lateral MoU with the IAIS is currently out for consultation, which will require input from the Division. The other key issue for the Division will be a full review of the level of compliance with international regulatory standards, particularly the Core Principles of Insurance Supervision issued by the IAIS.

Risk and Quality Assurance

From February 2007, a new Director of Risk and Quality Assurance will be appointed. This new role will have prime responsibility for delivery of the ARMIIE project, will ensure consistency and effectiveness of supervisory processes and procedures, and will develop the Commission's use of its risk model, which drives its risk-based approach to supervision. In addition, the new appointment will be responsible for the Risk Unit, which will continue to carry out the function of internal audit. The Risk Unit will also continue to maintain the Commission Risk Schedules.

ICT

The ICT team will continue the range of Registry automation and e-commerce projects, which will continue through until the end of 2008. There will be an intensive period for the team from March to May 2007 in preparation for the move to the new premises. The team will also be involved, together with the Supervision Divisions, in implementing the ARMIIE project. The team will also co-ordinate the process leading to accreditation under the important security standard, ISO 27001, as an information service provider.

Registry

The key priority of the Registry is to ensure that it offers a high quality of service to its users, by managing its workflows as efficiently and effectively as possible. The Registry will, in partnership with the ICT team, continue the range of automation and e-commerce projects, which will continue through until the end of 2008. In addition, the Registry will promote a revised Registration of Business Names (Jersey) Law and issue related guidance notes. Guidance will also be issued in respect of corporate directors and a register of directors. Finally, the Registry will contribute to consultation on the draft Companies (Amendment No.10) (Jersey) Law 200-.

Finance

The States will be asked to bring into force the Financial Services Commission (Amendment No. 4) (Jersey) Law 200-, which was delayed in 2006 pending the results of the VFM Audit. This amendment introduces the ability of the Commission to set its own fees, and introduces administrative fines across all regulatory sectors. In addition, the Division will review the rotational basis of fee setting with a view to possibly producing annual inflation increases based on the Jersey Retail Price Index.

The Finance Division will continue the work to integrate the Central Index System ("**CIS**") with Open Accounts, begun in 2006, in order to reconcile fee income due to the Commission recorded in CIS to actual receipts in Open Accounts. This will be a joint project with

ICT. Finally, the Division will co-ordinate the identification and appointment of new auditors, subject to the approval of the Minister for Economic Development.

Corporate Services

The Corporate Services Division has one major priority in 2007, which is to complete the design, build and fit-out of the new premises, and organise the move of the Commission to the new premises at the start of May. Thereafter, the division will oversee reparation of the dilapidations on the existing premises and deal with any issues that result from the move. The Division will also coordinate the VFM Action Plan to implement the recommendations arising from the Audit. It will also continue to produce the Annual Business Plan, monitor progress against the Business Plan, and publish the Annual Report and quarterly Newsletter.

Human Resources

The HR team will continue to progress enhanced automation functionality of the specialist HR system "Snowdrop", with the integration of flexi-time, and the automation of training and development planning and recording. The team will also be focusing on the new design or revision of key policies to ensure compliance with the Employment (Jersey) Law phase II.

Resourcing

In terms of the Commission's resourcing to achieve the above priorities, it has been concluded that to manage the increasing workload, particularly in funds and insurance, the Commission requires 5 additional staff. There is little opportunity to meet the additional resourcing requirements of preparing for the IMF review by reallocating existing staff resources. However the preparation will need to be the responsibility of existing experienced Commission staff. In addition, the IMF evaluation will attach great importance to the effectiveness with which the international standards are being applied and will be looking to see how this is monitored through a comprehensive on-site examination programme. In order to achieve the priorities under these circumstances, a number of the on-site examinations will be outsourced. Four contract staff will be used to carry out day to day supervisory work in order to release key staff for the IMF preparation. The use of outsourcing and contract staff ensures that some of the increased staff costs in 2007 will not continue to be incurred in later years.

Section 4: Budget 2007

Policy

The Commission's policy with respect to the Budget is to:

- Set fees at such a level as to cover the costs of regulating the finance industry and administering the Companies Registry and make an appropriate contribution to reserves;

- Keep regulatory fees to a minimum by maintaining strict control of costs;

- Build up an accumulated reserve equal to one quarter's operating expenditure plus the average of one year's cost of investigations and litigation, in order to meet contingencies.

Income

Fee income in 2006 was £13,516,000, £906,000 above budget. The main cause of the increase has been the continued high level of new fund applications together with the associated increase in company incorporations. There has also been increased income from banks, and from insurance and general insurance mediation business, as a result of new licences. Income from investment businesses and trust companies was below budget due to mergers and the withdrawal of licences during the year.

In the 2007 budget, fee income is £13,740,000. In respect of registry income, a cautious approach has been adopted, because the current level of company incorporations may not continue. The increases in banking and trust company fees are the result of new fee scales that take effect from next year. Income from insurance, general insurance mediation, funds and investment business is expected to remain close to the 2006 levels.

Bank deposit interest received in 2006 was £412,000, an increase against budget of £62,000. This was primarily due to the higher level of fee income. For 2007, interest income is expected to be lower because of the costs of new staff and the expenditure associated with the move to new premises.

After accounting for the amount of £4.1 million payable to the States of Jersey, the budgeted net income available to the Commission for its own expenditure in 2007 is £10,020,000, compared with £9,828,000 in 2006.

Expenditure

Operating expenditure in 2006 was £8,418,000 against a budget of £8,012,000. The increased spend of £406,000 arose in part from higher spend on professional services, a direct result of the engagement of external professional firms to provide assistance in the supervision visit programme. An increase in premises costs came from the use of lawyers and other professional advisers in connection with the move to new offices. Staff costs were higher than budgeted due to the recruitment of additional staff, which also resulted in increased recruitment costs. These staff increases were also the reason for the higher spend on travel and training.

In 2007, the budget shows an increase in costs over 2006 of £1,370,000 to £9,788,000. The main cause is staff costs because it is intended to recruit five additional staff in addition to the ongoing exercise to achieve full, approved headcount.

The budget for next year includes a reduction in premises costs because of the initial six-months rent free period in the new building, although this saving is partially offset by the associated premises-related costs of the actual move, including those of surveyors and lawyers.

Only computer systems projects that are considered to be essential have been included in the 2007 budget. All other developments have been deferred. The budget includes the systems for the new building as well as the maintenance costs for all systems and an increase in software licence fees for new staff.

The anticipated expenditure on professional services has been increased because it is expected that the use of assistance from external professional service providers will continue for on-site examinations and also for the preparation work necessary in advance of the IMF visit.

The amount of business travel and training is likely to increase next year as a result of higher staff numbers.

The increase in the budget also takes account of the expense involved in physically moving the Commission to new premises and the cost of ancillary items such as new letterheads, while the depreciation charges reflect the level of new furniture and computer systems that are to be installed in those new offices.

In respect of investigation and litigation costs, total expenditure of £519,000 in 2006 was lower than in recent years because of a decreasing number of new cases. For 2007, the budget of £700,000 has been based on this latest experience, but has still assumed that some new cases will arise.

Results for the years

2006 produced an excess of income over expenditure of £891,000, compared with an original budget deficit of £52,000. For 2007, the budget shows a deficit of £468,000, but the forecast level of reserves at the end of the year, £4,216,000, still remains in excess of the minimum desirable reserve calculated in line with the Commission's policy.

INCOME AND EXPENDITURE FOR THE YEARS 2005 TO 2007

	2005 £ooo Actual	*2006 £ooo Budget*	2006 £ooo Actual (unaudited)	**2007 £ooo Budget**
Income				
a) Fee Income				
Registry	5,871	*5,740*	6,169	**6,000**
Banking	1,187	*1,115*	1,188	**1,348**
Insurance	552	*520*	536	**530**
General Insurance Mediation	95	*50*	74	**70**
Funds	2,424	*2,100*	2,537	**2,450**
Investment Business	967	*1,105*	1,085	**1,070**
Trust Company Business	2,000	*1,980*	1,927	**2,272**
	13,096	*12,610*	13,516	**13,740**
Less: Contribution to the States of Jersey	4,100	*4,100*	4,100	**4,100**
	8,996	*8,510*	9,416	**9,640**
b) Other Income				
Bank Interest	367	*350*	412	**380**
Total Net Income	9,363	*8,860*	9,828	**10,020**
Operating Expenditure				
Staff costs	5,248	*5,975*	6,077	**7,033**
Other operating expenditure	2,215	*2,037*	2,341	**2,755**
Total Operating Expenditure	7,463	*8,012*	8,418	**9,788**
Operational surplus	1,900	*848*	1,410	**232**
Investigations/Litigation	1,143	*900*	519	**700**
Surplus/(deficit) for the year	757	*(52)*	891	**(468)**
Accumulated Fund at beginning of year	3,036	*3,793*	3,793	**4,684**

Financial Services Commission

Projected Balance Sheet as at 31/12/2006 and 31/12/2007

		Actual 2006 (unaudited)		Budget 2007
	£ooo	£ooo	£ooo	£ooo
Fixed Assets		522		635
Current Assets				
Sundry debtors	13		20	
Prepayments	186		225	
Bank balances	7,736		7,189	
		7,935		7,434
Total Assets		8,457		8,069
Current Liabilities				
Fee income received in advance	3,202		3,303	
Sundry creditors and provisions	571		550	
		3,773		3,853
Total Assets less Current Liabilities		4,684		4,216
Accumulated Reserve		4,684		4,216